

# BUDGET LETTER

NUMBER: 96-11

SUBJECT: CONTROL SECTIONS IN THE 1996 BUDGET ACT

DATE ISSUED: AUGUST 12, 1996

REFERENCES: BUDGET ACT OF 1996 (CHAPTER 162, STATUTES OF 1996)

SUPERSEDES:

TO: Agency Secretaries  
Department Directors  
Departmental Budget Officers  
Departmental Accounting Officers  
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE (DOF)

Over the past year, it became apparent that there was a difference between the Administration and the Legislature in their respective interpretations of the language of the various Budget Act control sections that allow for budget adjustments during a fiscal year. The primary legislative concern was that the control sections were being overutilized. During deliberations on the 1996-97 budget, the Administration reached agreement with the Legislature on changes to the control sections. The changes center around the principle that the budget should be as complete as possible and any subsequent adjustments should be only to meet critical and unanticipated needs. Essentially, the changes made clearly indicate the intent that departments are to manage their operations within the confines of the approved Budget Act and to limit adjustments.

As a result of these changes, DOF expects to send fewer section letters to the Legislature. We further anticipate the more timely submission of section letters to the Legislature in order to allow sufficient time for their review. Also, beginning with the 1997-98 budget, departments will need to ensure that anticipated federal grant awards are included in the January 10 Governor's Budget.

All agency and departmental administrative and budget staff should read and become familiar with the provisions of the revised Control Sections 26.00, 27.00, 28.00, and 28.50 and the newly created Section 11.00. Following is a summary of the major changes to these sections:

## I. CONTROL SECTIONS 26.00, 27.00, 28.00, AND 28.50 -- BUDGET ADJUSTMENTS

### A. Section 26.00 (formerly Section 6.50) - Intra-Schedule Transfers

This section provides the long-standing authority to transfer amounts within a scheduled item of appropriation. This section still provides that transfers in excess of \$200,000 require a 30-day notification to the Legislature. The major changes in the 1996 Budget Act are:

1. Adjustments pertain to any program, project, or function scheduled in an appropriation. "Function" means any scheduled detail other than program or project, including "category", as used in prior Budget Act language.

2. No transfer can be authorized to eliminate any program, project, or function, except as specified, or to establish any new program, project, or function.
3. No transfer can be made for capital outlay appropriations.
4. The DOF prepares annual reports, instead of quarterly reports, of all authorizations given pursuant to this section.
5. The provision that allowed transfers in excess of specified limitations upon approval of the Chairperson of the Joint Legislative Budget Committee (JLBC) has been deleted.

#### B. Section 27.00 - Deficiencies

This section provides the authority for the DOF to approve deficiencies per Government Code 11006 or to approve the expenditure of funds at a rate that will require a deficiency. The main changes for 1996-97 are:

1. No deficiency authorization shall be granted for a capital outlay appropriation.
2. A statement of legislative intent was added that limits deficiency authorizations to cases of unanticipated expenses incurred in the operation of existing programs where it is necessary to incur these costs during the fiscal year.
3. The 10-day notification by the DOF to the JLBC and the fiscal committees for deficiencies is now limited to requests, in an aggregate amount for each department for the fiscal year, that exceed \$500,000.

#### C. Section 28.00 - Augmentation for Nonstate Funds

This section traditionally provided for reduction or augmentation of Budget Act items for any funds to be received from state agencies, local government, the federal government, from any appropriation made by the Legislature, and any other source. The augmentation and reduction authority per this section is now limited to unanticipated moneys to be received from nonstate sources. For purposes of this section, unanticipated is defined to mean those instances when receipt of the funds could not reasonably have been foreseen at the time of development of the Governor's January budget proposal or of submission of the March Finance Letters for inclusion in the budget for the ensuing fiscal year. The authority to receive additional reimbursements from another state agency is now in new Section 28.50. Augmentations or reductions that exceed \$200,000 or 10 percent of the amount available for expenditure still require reporting to the Legislature. Additional changes made to the previous authority of Section 28.00 are:

1. States that "this section is not intended to provide an alternative budget process; ordinarily, proposals for additional spending should be considered in the annual budget process or other legislation."
2. Requires that additional funding meet the following criteria:
  - a) Expenditure must be for a purpose consistent with state law.
  - b) Funds are available to the State under conditions permitting their use only for a specified purpose.

- c) Acceptance of the funds must not impose any requirement to commit or expend new state funds.
- d) There is a need to expend the additional funds during the fiscal year.
- 3. Drops the requirement that all increased expenditures from departments' indirect cost funds in excess of budgeted amounts are subject to the reporting requirement of this section.

#### D. Section 28.50 Agency Reimbursement Payments

This new section provides the authority for expenditure of additional reimbursements received from another state agency. Expenditure of reimbursements in excess of \$200,000 requires at least a 30 day notification to the Legislature before approval can be granted by the DOF. This authority was previously provided in Section 28.00.

## II. DATA PROCESSING

### Section 11.00 - Information Technology Contracts

This new section requires DOF approval and 30-day notification to the JLBC and the fiscal committees prior to a state agency entering into information technology contracts or contract amendments that: (1) increase total project costs by \$500,000; or (2) represent a 10 percent increase in total project costs that exceed \$100,000. Items 1 and 2 apply to any information technology contract or amendment that would result in a total project increase in fiscal year 1996-97 or any subsequent fiscal years. The DOF will be distributing a separate Budget Letter describing the circumstances requiring reporting and the procedures to be followed.

## III. CONCLUSION

To reiterate, the changes made to the control sections are significant and it is the intent of the Administration to abide by the guidelines set forth in the sections. The result of the new sections is that the enacted budget must be a complete expenditure plan for the entire ensuing fiscal year and that any changes must be unanticipated, critical and be submitted to the Legislature on a timely basis, allowing sufficient time for review.

Please call your DOF Budget Analyst if you have any questions.



CRAIG L. BROWN  
Director